Joe Morolong Local Municipality

(Registration number NC 451)
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

General Information

Legal form of entity	South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act no 117 of 1998)	
Nature of business and principal activities	Joe Morolong Local Municipality is local municipality performing functions as set out in the Constitution (Act no 105 of 1996)	
Municipal Council Members		
Mayor	Cllr. M.D. Moremi	
Speaker	Cllr. M. Pitso	
Chief Whip	Cllr. E.O. Leshope	
Executive Members	Cllr. B.M. Mbolekwa	
	Cllr. N. Selebalo	
	Cllr. K. Mosiapoe	
	Cllr. E.O. Leshope	
Party Representatives	Cllr. J. Freedman	
	Cllr. M.T. Tihelo	
	Cllr. T.P. Tshipo (Deceased)	
	Cllr. K. Ditshetelo	
	Cllr. S. Segano	
	Cllr. B. Matlhomantsho	
	Cllr. V. Jordan	
Ward Councillors	Cllr. N. Mokweni	Ward 1
	Cllr. O. Kaotsane	Ward 2
	Cllr. S. Ortel	Ward 3
	Cllr. K. Shuping	Ward 4
	Cllr. S. Matshidiso	Ward 5
	Cllr. G Sephekolo	Ward 6
	Cllr. K. Modise	Ward 7
	Cllr. E. Molawa	Ward 8
	Cllr. G. Moriri	Ward 9
	Cllr. D. Kubang	Ward 10
	Cllr. P. Segaetsho	Ward 11
	Cllr. S. Moagi	Ward 12
	Cllr. H. Kgopodithata	Ward 13
	Cllr. D. Josop	Ward 14
	Cllr. K. Teteme	Ward 15
Mayor		
Council Committees		
1. Finance, Human Resources and Administration		
Chairperson	Cllr. K.J. Mosiapoe	
Committee Members	Cllr. V. Jordan	
	Cllr. K. Shuping	
	Cllr. G. Moriri	
	Cllr. N. Mokweni	
	Cllr. T. Teteme	
	Cllr. O. Kaotsane	

General Information

2. IDP, Planning and Development

Chairperson	Cllr. E.O. Leshope
Committee Members	Cllr. M.E. Molawa
	Cllr. S.P. Segaetsho
	Cllr. T.M. Mokgoje
	Cllr. J. Segano
	Cllr. K. Ditshetelo
	Cllr. B. Matlhomantsho

3. Infrastructure

Chairperson	Cllr. B.M. Mbolekwa
Committee Members	Cllr. D.S. Josop
	Cllr. M.C. Tihelo
	Cllr. T.P. Tshipo (Deceased)
	Cllr. K.J. Modise
	Cllr. O. Kgopodithata

4. Community Service

Chairperson	Cllr. N. Selebalo
Committee Members	Cllr. J. Freedman
	Cllr. S.J. Matshidiso
	Cllr. S. Ortel
	Cllr. D.C. Kubang
	Cllr. M.G. Sephekolo

Grading of local authority	Low capacity municipality
Demarcation code	NC451
Municipal Manager	Mr. T.M. Bloom
Chief Financial Officer (CFO)	Mrs. B.D. Motlhaping
Business address	D320 Cardington Road Churchill Village 8474
Postal address	Private Bag X 117 Mothibistad 8474
Bankers	Standard Bank Limited Absa Bank Limited First National Bank
Auditors	Auditor General of South Africa
Telephone number	(053) 773 9300
Fax Number	(053) 773 9350
Email address	bloomt@joemorolong.gov.za
Website	www.joemorolong.gov.za

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Index

Abbreviations

ASB	Accounting Standards Board
D.W.A.F	Department of Water Affairs and Forestry
DBSA	Development Bank of South Africa
ES	Equitable Share
EPWP	Extended Public Works Programme
FMG	Finance Management Grant
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IDP	Infrastructure Development Plan
INEP	Integrated National Electrification Programme
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
LG SETA	Local Government Sector Education Training Programme
MEC	Member of the Executive Council
ME's	Municipal Entities
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal Systems Improvement Grant
PAYE	Pay As You Earn
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund
VAT	Value Added Tax
WSOG	Water Services Operating Subsidy Grant

Relevant Legislation

Municipal Finance Management Act	(Act no 56 of 2003)
Division of Revenue Act	
The Income Tax Act	
Value Added Tax Act	
Municipal Structures Act	(Act no 117 of 1998)
Municipal Systems Act	(Act no 32 of 2000)
Municipal Planning and Performance Management Regulations	
Water Services Act	(Act no 108 of 1997)
Housing Act	(Act no 107 of 1997)
Municipal Property Rates Act	(Act no 6 of 2004)
Electricity Act	(Act no 41 of 1987)
Skills Development Levies Act	(Act no 9 of 1999)
Employment Equity Act	(Act no 55 of 1998)
Unempoyment Insurance Act	(Act no 30 of 1966)
Basic Conditions of Employment Act	(Act no 75 of 1997)
Supply Chain Management Regulations	(2005)
SALGBC - Salary and Wage Collective Agreement	
Infrastructure Grants	
SALBC Leave Regulations	
Labour Relations Act	

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 6 to 72, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed on its behalf by:

Mr. T.M. Bloom
Municipal Manager (Accounting Officer)

Joe Morolong Local Municipality

31 August 2015

Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated*
Assets			
Current Assets			
Inventories	3	1 797 983	1 961 682
Receivables from non-exchange transactions	4	1 245 014	1 245 014
VAT receivable	5	3 586 880	-
Receivables from exchange transactions	6	58 131 485	23 976 432
Cash and cash equivalents	7	691 588	339 765
		65 452 950	**27 522 893**
Non-Current Assets			
Property, plant and equipment	8	1 228 269 264	1 125 403 081
Intangible assets	9	474 321	314 007
		1 228 743 585	**1 125 717 088**
Total Assets		**1 294 196 535**	**1 153 239 981**
Liabilities			
Current Liabilities			
Long-term liabilities	11	784 507	627 492
Payables from exchange transactions	12	40 151 494	27 115 317
VAT payable	13	-	526 114
Provisions	14	1 165 811	692 967
Bank overdraft	7	16 122 827	15 555 656
		58 224 639	**44 517 546**
Non-Current Liabilities			
Long-term liabilities	11	1 802 600	2 597 797
Provisions	14	1 565 000	1 883 570
		3 367 600	**4 481 367**
Total Liabilities		**61 592 239**	**48 998 913**
Net Assets		**1 232 604 296**	**1 104 241 068**
Accumulated surplus		1 232 604 296	1 104 241 068

* See Note 41

Statement of Financial Performance

Figures in Rand	Notes	2015	2014 Restated*
Revenue			
Revenue from exchange transactions			
Interest received (trading)	22	4 583 384	3 726 728
Interest received - investment	15	1 155 435	259 686
Other income	16	751 433	875 129
Rental of facilities and equipment	17	73 939	99 655
Service charges	18	20 550 869	12 505 386
Total revenue from exchange transactions		**27 115 060**	**17 466 584**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	19	10 426 038	3 370 642
Sundry revenue	22	1 708 460	132 222
Transfer revenue			
Government grants & subsidies	20	256 511 323	201 729 305
Public contributions and donations	21	4 977 620	15 000
Total revenue from non-exchange transactions		**273 623 441**	**205 247 169**
Total revenue	22	**300 738 501**	**222 713 753**
Expenditure			
Bulk purchases	23	11 103 962	11 017 950
Contracted services	24	465 600	168 200
Debt impairment	25	(59 839 362)	2 336 145
Depreciation and amortisation	26	26 490 835	24 326 278
Finance costs	27	202 490	232 093
General Expenses	28	39 204 895	43 138 991
Grants and subsidies paid	29	18 379 122	13 704 816
Impairment loss/ Reversal of impairments	52	-	968 654
Employee related costs	30	47 446 687	38 539 567
Remuneration of councillors	31	8 531 355	7 503 760
Repairs and maintenance	32	9 252 042	18 214 760
Total expenditure		**101 237 626**	**160 151 214**
Operating surplus		**199 500 875**	**62 562 539**
Loss on disposal of assets and liabilities		-	(2 258 122)
Surplus for the year		**199 500 875**	**60 304 417**

* See Note 41

Statement of Changes in Net Assets

Figures in Rand	Share capital / contributed capital	Accumulated surplus	Total net assets
Balance at 01 July 2013	**-**	**1 043 936 651**	**1 043 936 651**
Changes in net assets			
Surplus for the year	-	60 304 417	60 304 417
Total changes	-	60 304 417	60 304 417
Opening balance as previously reported	19 457 074	1 033 103 421	1 052 560 495
Adjustments			
Prior period errors - Note 42	(19 457 074)	-	(19 457 074)
Restated* Balance at 01 July 2014 as restated*	**-**	**1 033 103 421**	**1 033 103 421**
Changes in net assets			
Surplus for the year	-	199 500 875	199 500 875
Total changes	-	199 500 875	199 500 875
Balance at 30 June 2015	**-**	**1 232 604 296**	**1 232 604 296**

Notes

* See Note 41

Cash Flow Statement

Figures in Rand	Notes	2015	2014 Restated*
Cash flows from operating activities			
Receipts			
Taxation		8 988 856	5 284 058
Sale of goods and services		11 544 555	7 756 511
Grants		220 595 255	201 744 305
Interest income		1 155 435	-
Other cash item		85 345 831	259 686
		327 629 932	215 044 560
Payments			
Employee costs		(55 464 741)	(44 528 532)
Suppliers		(89 997 859)	(131 735 597)
Finance costs		(202 490)	(232 093)
Other cash item		-	(37 366 594)
		(145 665 090)	(213 862 816)
Net cash flows from operating activities	36	**181 964 842**	**1 181 744**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(181 525 951)	(116 520 856)
Proceeds from sale of property, plant and equipment	8	229 717	2 758 352
Purchase of other intangible assets	9	(245 774)	(367 226)
Net cash flows from investing activities		**(181 542 008)**	**(114 129 730)**
Cash flows from financing activities			
Repayment of long-term liabilities		(638 182)	(937 342)
Net cash flows from financing activities		**(638 182)**	**(937 342)**
Net increase/(decrease) in cash and cash equivalents		**(215 348)**	**-**
Cash and cash equivalents at the beginning of the year		(15 215 891)	(15 215 891)
Cash and cash equivalents at the end of the year	7	**(15 431 239)**	**(15 215 891)**

* See Note 41

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	16 093 000	(1 068 000)	**15 025 000**	20 550 869	**5 525 869**	51
Rental of facilities and equipment	-	-	**-**	73 939	**73 939**	
Interest received (trading)	-	-	**-**	4 583 384	**4 583 384**	51
Other income	839 000	620 000	**1 459 000**	-	**(1 459 000)**	51
Other income - (rollup)	-	-	**-**	751 433	**751 433**	51
Interest received - investment	-	-	**-**	1 155 435	**1 155 435**	
Total revenue from exchange transactions	**16 932 000**	**(448 000)**	**16 484 000**	**27 115 060**	**10 631 060**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	9 651 000	(3 348 000)	**6 303 000**	10 426 038	**4 123 038**	51
Other taxation revenue 1	-	-	**-**	1 708 460	**1 708 460**	
Government grants & subsidies	-	-	**-**	256 511 323	**256 511 323**	51
Transfer revenue						
Public contributions and donations	-	-	**-**	4 977 620	**4 977 620**	51
Transfers recognised	111 580 000	2 054 000	**113 634 000**	-	**(113 634 000)**	51
Total revenue from non-exchange transactions	**121 231 000**	**(1 294 000)**	**119 937 000**	**273 623 441**	**153 686 441**	
Total revenue	**138 163 000**	**(1 742 000)**	**136 421 000**	**300 738 501**	**164 317 501**	
Expenditure						
Employee costs	(45 227 000)	511 000	**(44 716 000)**	(47 446 687)	**(2 730 687)**	
Remuneration of councillors	(8 226 000)	(21 000)	**(8 247 000)**	(8 531 355)	**(284 355)**	
Depreciation and asset impairment	(9 826 000)	2 110 000	**(7 716 000)**	(26 490 835)	**(18 774 835)**	51
Finance costs	(884 000)	(15 000)	**(899 000)**	(202 490)	**696 510**	
Debt impairment	-	-	**-**	59 839 362	**59 839 362**	51
Repairs and maintenance	-	-	**-**	(9 252 042)	**(9 252 042)**	51
Bulk purchases	(11 169 000)	1 700 000	**(9 469 000)**	(11 103 962)	**(1 634 962)**	
Contracted Services	-	-	**-**	(465 600)	**(465 600)**	
Grants and subsidies paid	(2 021 000)	(450 000)	**(2 471 000)**	(18 379 122)	**(15 908 122)**	51
General Expenses	(31 921 000)	(8 627 000)	**(40 548 000)**	(39 204 895)	**1 343 105**	
Total expenditure	**(109 274 000)**	**(4 792 000)**	**(114 066 000)**	**(101 237 626)**	**12 828 374**	
Surplus before taxation	**28 889 000**	**(6 534 000)**	**22 355 000**	**199 500 875**	**177 145 875**	
Surplus for the year from continuing operations	**28 889 000**	**(6 534 000)**	**22 355 000**	**199 500 875**	**177 145 875**	
Capital transfers and contributions	104 205 000	12 191 000	**116 396 000**	-	**(116 396 000)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**133 094 000**	**5 657 000**	**138 751 000**	**199 500 875**	**60 749 875**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	1 500 000	-	**1 500 000**	1 797 983	**297 983**	
Receivables from non-exchange transactions	-	-	**-**	1 245 014	**1 245 014**	
VAT receivable	-	-	**-**	3 586 880	**3 586 880**	
Consumer debtors	4 727 000	-	**4 727 000**	58 131 485	**53 404 485**	
Call investment deposits	218 000	4 782 000	**5 000 000**	-	**(5 000 000)**	
Cash and cash equivalents	3 013 000	11 336 000	**14 349 000**	691 588	**(13 657 412)**	
	9 458 000	**16 118 000**	**25 576 000**	**65 452 950**	**39 876 950**	
Non-Current Assets						
Investment property	3 085 000	(3 085 000)	**-**	-	**-**	
Property, plant and equipment	1 014 183 000	153 456 000	**1 167 639 000**	1 228 269 264	**60 630 264**	
Intangible assets	380 000	-	**380 000**	474 321	**94 321**	
	1 017 648 000	**150 371 000**	**1 168 019 000**	**1 228 743 585**	**60 724 585**	
Total Assets	**1 027 106 000**	**166 489 000**	**1 193 595 000**	**1 294 196 535**	**100 601 535**	
Liabilities						
Current Liabilities						
Long-term liabilities	-	-	**-**	784 507	**784 507**	
Payables from exchange transactions	-	-	**-**	40 151 486	**40 151 486**	
Provisions	645 000	-	**645 000**	1 165 811	**520 811**	
Borrowings	784 000	-	**784 000**	-	**(784 000)**	
Trade and other payables	9 760 000	2 417 000	**12 177 000**	-	**(12 177 000)**	
Bank overdraft	-	-	**-**	16 122 827	**16 122 827**	
	11 189 000	**2 417 000**	**13 606 000**	**58 224 631**	**44 618 631**	
Non-Current Liabilities						
Long-term liabilities	-	-	**-**	1 802 600	**1 802 600**	
Provisions	1 551 000	-	**1 551 000**	1 565 000	**14 000**	
Borrowings	2 836 000	(536 000)	**2 300 000**	-	**(2 300 000)**	
	4 387 000	**(536 000)**	**3 851 000**	**3 367 600**	**(483 400)**	
Total Liabilities	**15 576 000**	**1 881 000**	**17 457 000**	**61 592 231**	**44 135 231**	
Net Assets	**1 011 530 000**	**164 608 000**	**1 176 138 000**	**1 232 604 304**	**56 466 304**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Share capital / contributed capital	1 011 530 000	164 608 000	**1 176 138 000**	-	**(1 176 138 000)**	
Reserves						
Accumulated surplus	-	-	**-**	1 232 604 304	**1 232 604 304**	
Total Net Assets	**1 011 530 000**	**164 608 000**	**1 176 138 000**	**1 232 604 304**	**56 466 304**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Useful lives and residual values

The municipality reassesses the useful lives and residual values of property, plant and equipment, investment property and intangible assets on an annual basis. In reassessing the useful lives and residual values of property, plant and equipment, investment property and intangible assets management considers the condition and use of the individual assets, and base it on industry knowledge, to determine the remaining period over which the asset can and will be used and the residual value.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Long service awards

The long service awards liability arises from the municipality being a party to the Collective Agreement on Conditions of Service for Northern Cape Division of SALGBC. The long service awards plan is a defined benefit plan accounted for in terms of GRAP

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one reporting period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Accounting Policies

1.4 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or assets, or a combination of assets and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequently all property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	25 - 30 years
Improvements	25 - 30 years
Plant and machinery	
• Specialist plant and equipment	10 - 15 years
• Other plant and equipment	2 - 15 years
Furniture and fixtures	
• Office equipment	3 - 15 years
• Furniture and fittings	5 - 15 years
Motor vehicles	
• Specialist vehicles	10 - 15 years
• Other vehicles	5 - 15 years
Infrastructure	
• Roads and paving	10 - 100 years
• Pedestrian malls	15 - 30 years
• Electricity	15 - 60 years
Community	
• Community facilities	25 - 30 years
• Recreational facilities	15 - 30 years

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Accounting Policies

1.5 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	2 years

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Loans and receivables	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Long term liabilities	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Accounting Policies

1.6 Financial instruments (continued)

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

Financial assets

Held-to-maturity investments are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Loans and receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the effective interest rate method less any impairment, with interest recognised on an effective yield basis.

Financial assets at fair value are initially and subsequently, at the end of each financial year, measured at fair value with the gain or loss being recognised in the statement of financial performance.

Available-for-sale assets are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial performance.

Financial liabilities

Financial liabilities that are measured at fair value through profit or loss are stated at fair value, with any resulted gain or loss recognised in the statement of financial performance.

Financial liabilities held at amortised cost are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the
statement of financial performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

1.6 Financial instruments (continued)

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in net assets shall be removed and recognised in the statement of financial performance even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from net assets and recognised in the statement of financial performance is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in statement of financial performance. Impairment losses recognised in the statement of financial performance for an investment in an equity instrument classified as available-for-sale are not reversed through the statement of financial performance.

If, in a subsequent period, the fair value of a debt instrument classified as available-forsale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in the statement of financial performance, the impairment loss must be reversed, with the amount of the reversal recognised in the statement of financial performance.

Financial Assets carried at amortised cost

Accounts receivable encompass long-term debtors, consumer debtors and other debtors.

Initially accounts receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

An allowance for impairment of accounts receivable is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with IAS whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risks characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to shortterm receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of financial performance.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of financial performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Accounting Policies

1.6 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The municipality transfers a financial asset if either it transfers the contractual rights to receive the cash flows of the financial asset or it retains the contractual rights to receive the cash flows of the financial asset.

The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the statement of financial performance.

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Accounting Policies

1.7 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

Accounting Policies

1.8 Inventories (continued)

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs

Subsequent Measurement

Consumable stores, raw materials, work-in-progress and finished goods

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable
value. In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge, they are valued at the lower of cost and current replacement cost.

Water Inventory

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc). However, water in dams, that are filled by natural resources and that has not yet been treated, that is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at reporting date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the first-in-first-out method, at the lowest of purified cost and net realisable
value, insofar as it is stored and controlled in reservoirs at year-end.

Unsold Properties

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Cost also includes a portion of overhead costs, if this relates to development.

Other Arrangements

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the statement of financial performance in the year in which they arise. The amount of any reversal of any writedown of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

1.9 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

1.9 Construction contracts and receivables (continued)

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term “contractor” thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by .

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. The recoverable amount of a cash-generating asset is the higher of its fair value less costs to sell and its value in use.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:
- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.11 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Accounting Policies

1.11 Impairment of non-cash-generating assets (continued)

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the non-cash generating unit to which the asset belongs is determined. The recoverable service amount of a non-cash generating asset is the higher of its fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Accounting Policies

1.12 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains or losses are accounted for using the corridor method. Actuarial gains and losses are eligible for recognition in the statement of financial performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the
employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are
amortised on a straight-line basis over the vesting period.

1.13 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

Remuneration to employees is recognised in the statement of financial performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

The municipality has opted to treat its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a provision in the statement of financial position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post employement plans.

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

1.14 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Accounting Policies

1.14 Provisions and contingencies (continued)

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it – this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the statement of financial performance as a finance cost as it occurs.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it – this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Accounting Policies

1.14 Provisions and contingencies (continued)

Provisions for restructuring costs

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

(a) The municipality has a detailed formal plan for the restructuring identifying at least:
- The business or part of a business concerned;
- The principal locations affected;
- The location, function, and approximate number of employees who will be compensated for terminating their services
- The expenditures that will be undertaken; and
- When the plan will be implemented.

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Transitional provision

The municipality changed its accounting policy for provisions, contingent liabilities and contingent assets in 2015. The change in accounting policy is made in accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework.

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where provisions, contingent liabilities and contingent assets was acquired through a transfer of functions, the municipality is not required to measure that provisions, contingent liabilities and contingent assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2015 and provisions, contingent liabilities and contingent assets has accordingly been recognised at provisional amounts, as disclosed in 14.

Until such time as the measurement period expires and provisions, contingent liabilities and contingent assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets, the municipality need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets implies that any associated presentation and disclosure requirements need not be complied with for provisions, contingent liabilities and contingent assets not measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets.

Prepaid water and electricity

Revenue from the sale of water and electricity prepaid meter cards are recognised at the point of sale.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Accounting Policies

1.15 Revenue from exchange transactions (continued)

Service charges

Service charges are levied in terms of approved tariffs. Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property and water consumption, using the tariffs approved by council, and are levied monthly.

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Non exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, without giving approximately equal value to another entity in exchange.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

1.16 Revenue from non-exchange transactions (continued)

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time-proportionate basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Public contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are available for use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

Other donations and contributions

Other donations and contributions are generally recognised to the extent that the related receipt or receivable qualifies for
recognition as an asset and there is no liability to repay the amount.

Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

1.17 Borrowing costs

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established – the municipality expenses borrowing costs when it is inappropriate to capitalise it. The municipality ceases the capitalisation of borrowing costs when substantially all the activities necessary to prepare the qualifying assets for its intended use have been completed.

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised expenditure

Unauthorised expenditure means:

1.19 Unauthorised expenditure (continued)

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South
African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the municipality, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions. The municipality regards all individuals at senior management as key management per the definition of the financial reporting standard.

Close members of the family of key management personnel are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.23 Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, highly liquid deposits and net of bank overdrafts. The Municipality categorises cash and cash equivalents as financial assets carried at amortised cost.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

Accounting Policies

1.24 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the municipality has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with over investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as either held for trading or available-for-sale, and are measured at subsequent reporting dates at fair value, based on quoted market prices at the reporting date. Where securities are held for trading purposes, unrealised gains and losses are included in net surplus/(deficit) for the period. For available-for-sale investments, unrealised gains and losses are recognised directly in net assets, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in net assets is included in the net surplus/(deficit) for the period.

1.25 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The audited annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.26 Government grants and receipts

Government grants and receipts are recognised as revenue when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- The amount of the revenue can be measured reliably; and
- To the extent that there has been compliance with any restrictions associated with the grant.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the statement of financial performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality’s interest, it is recognised as interest earned in the statement of financial performance.

Revenue comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

Accounting Policies

1.27 Value added tax (VAT)

The municipality accounts for value added tax on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7(1)(a) of the VAT Act in respect of the supply of goods or services except where the suppliers are specifically zero rated in terms of section 11, exempt in terms of section 12 of the VAT Act or are scoped out for VAT purposes.

The municipality accounts for VAT on a monthly basis.

Finance income

Interest earned on investments is recognised in the statement of financial performance on the time-proportionate basis that takes into account the effective yield on the investment.

Rentals received

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Dividends

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

Tariff charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant advertised tariff. This includes the issuing of licences and permits.

Revenue from agency services

Revenue for agency services is recognised on a monthly basis once the revenue collected on behalf of agents has been
quantified. The revenue recognised is in terms of the agency agreement.

Sale of goods (including houses)

Revenue from the sale of goods is recognised when all the following conditions have been met:

- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership
  nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.28 Events after reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the annual financial statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in notes to the annual financial statements.

Accounting Policies

1.29 Commitments

Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance, but are included in the disclosure notes. A distinction is made between capital and current commitments.

Commitments are disclosed for:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself tofuture transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality.

1.30 Change in accounting estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality restated the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

The municipality identified and disclosed the impact of GRAP standards that have been issued but are not yet effective in accordance with the requirements of GRAP 3.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 106: Transfers of functions between entities not under common control

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 107: Mergers

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity’s annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality has adopted the standard for the first time in the 2015 annual financial statements.

The impact of the standard is not material.

GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

The definition of 'minority interest' has been amended to 'non-controlling interest', and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality has adopted the amendment for the first time in the 2015 annual financial statements.

The impact of the amendment is not material.

GRAP 7 (as revised 2010): Investments in Associates

Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .22, .28 and .38 and added paragraph .24. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality has adopted the amendment for the first time in the 2015 annual financial statements.

The impact of the amendment is not material.

GRAP 9 (as revised 2012): Revenue from Exchange Transactions

Paragraphs .11 and .13 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Scope and Definitions.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2014.

The municipality has adopted the amendment for the first time in the 2015 annual financial statements.

The impact of the amendment is not material.

GRAP 12 (as revised 2012): Inventories

Paragraph .30 was amended by the improvements to the Standards of GRAP issued previously:

2. New standards and interpretations (continued)

Amendments were made to Measurement after recognition.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2014.

The municipality has adopted the amendment for the first time in the 2015 annual financial statements.

The impact of the amendment is not material.

GRAP 13 (as revised 2012): Leases

Paragraphs .38 and .42 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Disclosures.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2014.

The municipality has adopted the amendment for the first time in the 2015 annual financial statements.

The impact of the amendment is not material.

GRAP 16 (as revised 2012): Investment Property

Paragraphs .12, .15, .34, .76, .84 and .87 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions, Measurement at recognition, Disposals and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2014.

The municipality has adopted the amendment for the first time in the 2015 annual financial statements.

The impact of the amendment is not material.

GRAP 17 (as revised 2012): Property, Plant and Equipment

Paragraphs .44, .45, .72, .75, .79 and .85 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition, Derecognition and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2014.

The municipality has adopted the amendment for the first time in the 2015 annual financial statements.

The impact of the amendment is not material.

GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)

Paragraphs .07, .08, .19, .22, .23, .37, .38, .40, .45 and .46 were amended by the improvements to the Standards of GRAP issued previously:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Amendments were made to Definitions, Recognition and measurement and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2014.

The municipality has adopted the amendment for the first time in the 2015 annual financial statements.

The impact of the amendment is not material.

GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)

Numerous paragraphs were amended by the improvements to the Standards of GRAP issued previously:

Changes made comprise 3 areas that can be summarised as follows:
- Consequential amendments arising from the alignment of the accounting treatment and text of GRAP 102 with that in IPSAS 31,
- The deletion of guidance and examples from Interpretations issues by the IASB previously included in GRAP102,
- Changes to ensure consistency between the Standards, or to clarify existing principles.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2014.

The municipality has adopted the amendment for the first time in the 2015 annual financial statements.

The impact of the amendment is not material.

IGRAP16: Intangible assets website costs

An entity may incur internal expenditure on the development and operation of its own website for internal or external access. A website designed for external access may be used for various purposes such as to disseminate information, for example annul reports and budgets, create awareness of services, request comment on draft legislation, promote and advertise an entity’s own services and products, for example the E-filing facility of SARS that enables taxpayers to complete their annual tax assessments, provide electronic services and list approved supplier details. A website designed for internal access may be used to store an entity’s information, for example policies and operating procedures, and details of users of a service, and other relevant information.

The stages of a website’s development can be described as follows:
- Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.
- Application and infrastructure development – includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.
- Graphical design development – includes designing the appearance of web pages.
- Content development – includes creating, purchasing, preparing and uploading information, either text or graphic, on the website before the completion of the website’s development. This information may either be stored in separate databases that are integrated into (or accessed from) the website or coded directly into the web pages.

Once development of a website has been completed, the operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the website.

When accounting for internal expenditure on the development and operation of an entity’s own website for internal or external access, the issues are:
- whether the website is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets; and
- the appropriate accounting treatment of such expenditure.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

This Interpretation of Standards of GRAP does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and internet connections) of a website. Such expenditure is accounted for under the Standard of GRAP on Property, Plant and Equipment. Additionally, when an entity incurs expenditure on an internet service provider hosting the entity's website, the expenditure is recognised as an expense under the paragraph .93 in the Standard of GRAP on Presentation of Financial Statements and the Framework for the Preparation and Presentation of Financial Statements when the services are received.

The Standard of GRAP on Intangible Assets does not apply to intangible assets held by an entity for sale in the ordinary course of operations (see the Standards of GRAP on Construction Contracts and Inventories) or leases that fall within the scope of the Standard of GRAP on Leases. Accordingly, this Interpretation of Standards of GRAP does not apply to expenditure on the development or operation of a website (or website software) for sale to another entity. When a website is leased under an operating lease, the lessor applies this Interpretation of Standards of GRAP. When a website is leased under a finance lease, the lessee applies this Interpretation of Standards of GRAP after initial recognition of the leased asset.

The effective date of the amendment is for years beginning on or after 01 April 2014.

The municipality has adopted the amendment for the first time in the 2015 annual financial statements.

The impact of the amendment is not material.

IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue

Paragraphs .03, .04, .05, .06, .08 and .10, were amended and paragraph .02 was added in the Interpretation of the Standards of GRAP.

This Interpretation of the Standards of GRAP now addresses the manner in which an entity applies the probability test on initial recognition of both:

(a) exchange revenue in accordance with the Standard of GRAP on Revenue from Exchange Transactions and

(b) non-exchange revenue in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

This Interpretation of the Standards of GRAP supersedes the Interpretation of the Standards of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue issued in 2009.

The effective date of the amendment is for years beginning on or after 01 April 2014.

The municipality has adopted the amendment for the first time in the 2015 annual financial statements.

The impact of the amendment is not material.

GRAP32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

The aggregate impact of the initial application of the statements and interpretations on the municipality's annual financial statements is expected to be as follows:

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

3. Inventories

Consumable stores	1 797 983	1 961 682

Inventory pledged as security

No Inventory was pledged as security

4. Receivables from non-exchange transactions

Employee costs in advance	1 102 232	1 102 232
Unallocated receipts	142 782	142 782
	1 245 014	**1 245 014**

5. VAT receivable

VAT	3 586 880	-

6. Receivables from exchange transactions

Gross balances		
Rates	17 046 842	18 539 037
Electricity	3 879 578	4 315 525
Water	21 720 574	10 982 477
Sewerage	2 530 373	1 218 791
Refuse	1 837 555	1 011 406
Service debtors	62 903 558	99 535 554
	109 918 480	**135 602 790**
Less: Allowance for impairment		
Rates	(20 372 897)	(9 744 028)
Electricity	(2 883 243)	(2 778 126)
Water	(19 347 838)	(10 321 310)
Refuse	(1 806 579)	(798 445)
Service debtors	(7 376 438)	(87 984 449)
	(51 786 995)	**(111 626 358)**
Net balance		
Rates	(3 326 055)	8 795 009
Electricity	996 335	1 537 399
Water	2 372 736	661 167
Sewerage	2 530 373	1 218 791
Refuse	30 976	212 961
Service debtors	55 527 120	11 551 105
	58 131 485	**23 976 432**
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	17 581 035	8 795 009
Net balance	**17 581 035**	**8 795 009**
Rates		
Current (0 -30 days)	(3 326 055)	8 795 009

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

6. Receivables from exchange transactions (continued)

Electricity		
Current (0 -30 days)	77 984	549 255
31 - 60 days	88 326	233 655
61 - 90 days	112 313	754 489
91 - 120 days	101 013	-
> 365 days	616 699	-
	996 335	**1 537 399**

Water		
Current (0 -30 days)	1 050 118	661 167
31 - 60 days	757 084	-
61 - 90 days	565 534	-
	2 372 736	**661 167**

Sewerage		
Current (0 -30 days)	166 821	302 522
31 - 60 days	158 304	142 816
61 - 90 days	155 602	110 739
91 - 120 days	153 100	12 398
121 - 365 days	908 690	639 341
> 365 days	987 856	10 975
	2 530 373	**1 218 791**

Refuse		
Current (0 -30 days)	30 976	60 301
31 - 60 days	-	78 944
61 - 90 days	-	68 554
91 - 120 days	-	5 162
	30 976	**212 961**

Service debtors		
Current (0 -30 days)	1 405 833	737 371
31 - 60 days	176 322	751 885
61 - 90 days	5 546	1 110 181
91 - 120 days	2 285 529	5 485
121 - 365 days	682 651	8 946 183
> 365 days	50 971 239	-
	55 527 120	**11 551 105**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

6. Receivables from exchange transactions (continued)

Summary of debtors by customer classification

	2015	2014
Consumers		
Current (0 -30 days)	16 467	3 782 152
31 - 60 days	2 770	2 219 127
61 - 90 days	7 846	2 228 137
91 - 120 days	379	1 278 410
121 - 365 days	36 352	118 570 099
Less impairment	-	(60 037 883)
	63 814	**68 040 042**

	2015	2014
Industrial/ commercial		
Current (0 -30 days)	2 017 402	1 868
31 - 60 days	11 019	765
61 - 90 days	969	1 509
91 - 120 days	2 131	1 419
121 - 365 days	140 172	32 561
Less impairment	-	(35 218)
	2 171 693	**2 904**

	2015	2014
National and provincial government		
Current (0 -30 days)	120 253	98
31 - 60 days	103 027	48
61 - 90 days	111 185	47
91 - 120 days	2 284 919	47
121 - 365 days	53 100 327	5
Less impairment	-	(245)
	55 719 711	**-**

	2015	2014
Total		
Current (0 -30 days)	5 277 817	3 784 118
31 - 60 days	2 454 323	2 219 939
61 - 90 days	2 250 806	2 229 694
91 - 120 days	5 612 905	1 068 289
121 - 365 days	15 005 623	118 602 666
> 365 days	69 508 431	21 398 119
	100 109 905	149 302 825
Less: Allowance for impairment	(41 978 420)	(125 326 393)
	58 131 485	**23 976 432**

	2015	2014
Less: Provision for debt impairment		
Balance at the beginning of the year	(111 626 358)	(109 290 214)
Contributions to allowances	59 839 363	(2 336 144)
	(51 786 995)	**(111 626 358)**

	2015	2014
Reconciliation of allowance for impairment		
Balance at beginning of the year	(111 626 358)	(109 290 214)
Contributions to allowance	-	(2 336 144)
Reversal of allowance	59 839 363	-
	(51 786 995)	**(111 626 358)**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

7. Cash and cash equivalents

Cash and cash equivalents consist of:

	2015	2014
Short-term deposits	691 588	339 765
Bank overdraft	(16 122 827)	(15 555 656)
	(15 431 239)	**(15 215 891)**
Current assets	691 588	339 765
Current liabilities	(16 122 827)	(15 555 656)
	(15 431 239)	**(15 215 891)**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
ABSA Bank Limited -4054 38 5292	1 059 615	1 651 603	21 081	1 047 359	1 635 548	21 081
Standard Bank - Primary bank account - 302854185	954 381	1 444 403	-	(17 170 605)	(17 191 204)	-
Call Investment Deposits:	-	-	-	-	-	-
ABSA Bank Limited - Call Account -92 8882 04 87	246 131	232 404	-	246 131	232 404	-
ABSA Bank Limited - Call Deposit 90 9268 8429 - CLOSED	-	-	3 547	-	-	3 547
ABSA Bank Limited - Call Deposit 91 5245 5805 - CLOSED	-	-	2 552	-	-	2 552
ABSA Bank Limited - Call Deposit 92 7930 6228 - CLOSED	-	-	1 000	-	-	1 000
First National Bank - Call Deposit - 62 2471 177 09	105 862	3 205	-	105 862	3 205	-
ABSA Bank Limited - Fixed Deposit - 20 7396 98 01	31 135	29 701	-	31 135	29 701	-
ABSA Bank Limited - Depositor plus- 92 9720 00 38	230 838	-	-	230 838	-	-
Standard Bank - Money market call account - 54 8529 973 003	72 414	69 330	-	72 414	69 330	-
Standard Bank - Money market call account - 54 8529 973 002	5 208	5 125	-	5 208	5 125	-
Total	**2 705 584**	**3 435 771**	**28 180**	**(15 431 658)**	**(15 215 891)**	**28 180**

8. Property, plant and equipment

	2015			2014		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Community	134 937 935	(24 332 426)	110 605 509	129 166 471	(19 834 495)	109 331 976
Computer equipment	2 207 908	(1 400 312)	807 596	2 116 484	(1 168 694)	947 790
Furniture and fixtures	2 274 890	(1 695 341)	579 549	2 077 209	(1 382 384)	694 825
Infrastructure	987 775 123	(77 877 542)	909 897 581	939 424 634	(57 828 813)	881 595 821
Land	7 169 290	-	7 169 290	7 169 290	-	7 169 290
Motor vehicles	11 252 146	(6 580 273)	4 671 873	10 280 570	(5 317 710)	4 962 860
Other property, plant and equipment	3 842 279	(1 682 412)	2 159 867	2 686 757	(1 814 130)	872 627
Work in progress - Infrastructure	192 377 999	-	192 377 999	119 827 892	-	119 827 892
Total	**1 341 837 570**	**(113 568 306)**	**1 228 269 264**	**1 212 749 307**	**(87 346 226)**	**1 125 403 081**

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Community	109 331 976	5 771 465	-	-	-	(4 497 932)	110 605 50
Computer equipment	947 790	266 213	(174 789)	-	-	(231 618)	807 59
Furniture and fixtures	694 825	198 644	(1 473)	-	(3 422)	(309 025)	579 54
Infrastructure	881 595 821	47 830 047	352 610	-	-	(19 880 897)	909 897 58
Land	7 169 290	-	-	-	-	-	7 169 29
Motor vehicles	4 962 860	1 377 642	(406 065)	-	-	(1 262 564)	4 671 87
Other property, plant and equipment	872 627	1 155 522	-	-	355 056	(223 338)	2 159 86
Work in progress	119 827 892	124 926 418	-	(52 376 311)	-	-	192 377 99
	1 125 403 081	**181 525 951**	**(229 717)**	**(52 376 311)**	**351 634**	**(26 405 374)**	**1 228 269 26**

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Revaluations	Other changes, movements	Depreciation	Impairment loss
Community	118 753 925	-	(5 116 400)	-	-	(4 305 549)	
Computer equipment	710 870	569 573	-	32 788	-	(365 441)	
Furniture and fixtures	882 008	96 010	-	72 756	(7 439)	(348 510)	
Infrastructure	861 914 596	37 560 157	(584 787)	-	-	(17 294 145)	
Land	2 052 890	5 116 400	-	-	-	-	
Motor vehicles	4 808 042	621 440	1 132 925	-	-	(1 599 547)	
Other property, plant and equipment	1 227 182	140 868	(448 212)	-	-	(332 125)	284 91
Work in progress	47 411 484	72 416 408	-	-	-	-	
	1 037 760 997	**116 520 856**	**(5 016 474)**	**105 544**	**(7 439)**	**(24 245 317)**	**284 91**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

8. Property, plant and equipment (continued)

Pledged as security

The municipality did not pledge any of its assets as security.

All property, plant and equipment is being fully utilised by the municipality. There is therefore no idle property, plant and equipment.

The carrying amount of property, plant and equipment does not materially differ to the fair value of the disclosed property, plant and equipment.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

9. Intangible assets

	2015			2014		
	Cost	Accumulated amortisation and impairment	Carrying value	Cost	Accumulated amortisation and impairment	Carrying value
Computer software	613 000	(138 679)	474 321	367 226	(53 219)	314 007

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software, other	314 007	245 774	(85 460)	474 321

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software	-	367 226	(53 219)	314 007

Pledged as security

No restrictions apply to any of the intangible assets of the municipality.

A register containing the information required by section 63 of the Municipal Finance Management Act is availible for inspection at the registered office of the municipality.

10. Unspent conditional grants and receipts

In the current year the municipality does not have unspent conditional grants because all the allocated grants were fully utilized.

See note for reconciliation of grants from National/Provincial Government.

Notes to the Annual Financial Statements

Figures in Rand		2015	2014

11. Long-term liabilities

At amortised cost			
Development Bank of South Africa- Short term portion		784 507	627 492
Loan number:	101251/1		
Starting date:	01/07/2007		
Redemption date:	30/06/2017		
Capital and Interest repayment frequency:	6 Months		
Interest rate:	1.000% (Fixed)		
Development Bank of South Africa		1 802 600	2 597 797
Loan number:	101797/1		
Starting date:	01/07/2011		
Redemption date:	30/06/2027		
Capital and Interest repayment frequency:	6 Months		
Interest rate:	8.848% (Fixed)		
		2 587 107	**3 225 289**
Total other financial liabilities		**2 587 107**	**3 225 289**
Non-current liabilities			
At amortised cost		1 802 600	2 597 797
Current liabilities			
At amortised cost		784 507	627 492

12. Payables from exchange transactions

Accrual of 13th cheque	1 126 424	1 126 412
Accrued interest	10 029	10 029
Accrued leave pay	2 375 776	1 862 475
Debtors with credit balances	17 108 584	7 300 011
Deposits received	400	400
Other payables	14 300 606	13 233 068
Unallocated deposits	11 981	-
Retention fees	1 429 388	500 677
Sundry deposits	668 935	668 935
Trade payables	3 119 371	2 413 310
	40 151 494	**27 115 317**

13. VAT payable

Tax refunds payables	-	526 114

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

14. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Additions	Actuarial gains/(losses)	Total
Provision for landfill site	1 883 570	-	(318 570)	1 565 000
Provision for long service awards	692 967	472 844	-	1 165 811
	2 576 537	**472 844**	**(318 570)**	**2 730 811**

Reconciliation of provisions - 2014

	Opening Balance	Additions	Total
Provision for landfill site	1 584 925	298 645	1 883 570
Provision for long service awards	611 334	81 633	692 967
	2 196 259	**380 278**	**2 576 537**

	2015	2014
Non-current liabilities	1 565 000	1 883 570
Current liabilities	1 165 811	692 967
	2 730 811	**2 576 537**

Provision for environmental rehabilitation

In terms of the licencing of the landfill refuse sites, the municipality will incur licensing and rehabilitation costs. A valuation was performed by independent experts and the related report is available for inspection at the municipal main offices.

Provision for long service awards

Discount Rate: IAS19 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant and as prescribed in GRAP25, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 7.66% per annum has been used. This rate does not reflect any adjustment for taxation. This is derived by using a liability-weighted average of the yields corresponding to the average term until payment of long service awards, for each employee. The corresponding liability-weighted index-linked yield is 1.13%. These rates do not reflect any adjustment for taxation.

15. Investment revenue

	2015	2014
Interest revenue		
Bank	1 155 435	259 686

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

16. Other income

Admin fees	13 550	-
Cemetry fees	202	214
Grading fees	3 316	-
Insurance claims received	17 322	-
Other water charges	226 426	59 561
Photocopies	9 786	9 076
Profit on disposal of assets	-	663 018
Rental income	4 561	252
Skills development claims income	18 732	25 501
Telephone cost reclaimed	118 931	29 133
Tender documents	246 192	68 707
Water connection fees	92 415	19 667
	751 433	**875 129**

17. Rental of facilities and equipment

Premises		
Premises	14 421	17 285
Facilities and equipment		
Rental of facilities	59 518	82 370
	73 939	**99 655**

18. Service charges

Sale of electricity	4 554 753	4 914 111
Sale of water	13 571 487	5 314 596
Solid waste	867 640	837 861
Sewerage and sanitation charges	1 556 989	1 438 818
	20 550 869	**12 505 386**

19. Property rates

Rates received

Agricultural	18 130 272	31 677 671
Commercial	2 048 771	186 949
Residential	10 323 062	277 511
Less: Rebates	(20 076 067)	(28 771 489)
	(9 753 005)	(28 493 978)
	10 426 038	**3 370 642**

Property rates are levied monthly on a fair market value on properties and are payable the 1st working day of each month.

Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

20. Government grants and subsidies

	2015	2014
Operating grants		
Equitable share	93 255 000	71 227 000
Finance Management Grant (FMG)	1 600 000	1 550 000
Library Grant	969 000	590 000
Municipal Systems Improvement Grant (MSIG)	934 000	890 000
	96 758 000	74 257 000
Capital grants		
ACIP Sanitation	28 642 962	2 796 306
Extended Public Works Programme	1 969 000	2 495 910
Municipal Infrastructure Grant (MIG)	57 058 000	55 253 000
Kumba Iron Ore SLP (Other conditional grants)	7 066 676	8 455 242
Rural Household Infrastructure Grant	5 016 685	43 435 847
Water Operation and Subsidy Grant	10 000 000	8 000 000
Municipal Water Infrastructure Grant (MWIG)	50 000 000	7 036 000
	65 016 685	58 471 847
	256 511 323	**201 729 305**

Equitable Share

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

Finance Management Grant (FMG)

	2015	2014
Current-year receipts	1 600 000	1 550 000
Conditions met - transferred to revenue	(1 600 000)	(1 550 000)
	-	-

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns)

Library Grant

	2015	2014
Current-year receipts	969 000	590 000
Conditions met - transferred to revenue	(969 000)	(590 000)
	-	-

The grant is received from the provincial Department of Sport, Arts and Culture to transform urban and rural community library infrastructure, facilities and services throguh a recapitalised programme at provincial level in support of local government and national initiatives.

Municipal Systems Improvement Grant (MSIG)

	2015	2014
Current-year receipts	934 000	890 000
Conditions met - transferred to revenue	(934 000)	(890 000)
	-	-

This grant was used to assist in building capacity in the district and local municipalities to ensure that the new developmental system of local government is fully implemented.

ACIP Sanitation

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

20. Government grants and subsidies (continued)

Current-year receipts	51 632 746	9 832 306
Conditions met - transferred to revenue	(51 632 746)	(9 832 306)
	-	-

This grant is used for the improvement of the social welfare of the community.

Extended Public Works Programme

Current-year receipts	-	2 495 910
Conditions met - transferred to revenue	-	(2 495 910)
	-	-

The grant is used for public works progrmmes focus on job creation through implementation of labour intensive projects.

Municipal Infrastructure Grant (MIG)

Current-year receipts	57 058 000	55 253 000
Conditions met - transferred to revenue	(57 058 000)	(55 253 000)
	-	-

MIG is a conditional grant that was established to address national priorities regarding municipal infrastructure that may not be realised through unconditional grants such as equitable share. Among other conditions no MIG funds may be spent outside the framework of the municipality's pre-existing Integrated Development Plan and its approved budget.

Rural Household Infrastructure Grant

Current-year receipts	(33 003 068)	43 435 847
Conditions met - transferred to revenue	33 003 068	(43 435 847)
	-	-

To provide specific capital funding for the reduction of rural sanitation backlogs and to target existing households where bulk-dependent services are not viable.

Water Operation and Subsidy Grant

Current-year receipts	10 000 000	8 000 000
Conditions met - transferred to revenue	(10 000 000)	(8 000 000)
	-	-

The subsidy is utilised to subsideise, refurbish and restore the functionality of water services schemes previously owned and/or operated by the Department of Water Affairs or by other agencies on behalf of the department.

Kumba Iron Ore SLP (Other conditional grants)

Current-year receipts	7 066 676	8 455 242
Conditions met - transferred to revenue	(7 066 676)	(8 455 242)
	-	-

The purpose of the grant is to ensure that holders of mining or production rights contribute towards the socio economic development of the areas in which they operate.

Municipal Water Infrastructure Grant(MWIG)

Figures in Rand	2015	2014

20. Government grants and subsidies (continued)

Current-year receipts	50 000 000	7 036 000
Conditions met - transferred to revenue	(50 000 000)	(7 036 000)
	-	-

21. Public contributions and donations

Public contributions and donations	4 977 620	15 000

The municipality received donations from the mine of road infrastructure.

22. Revenue

Government grants & subsidies	256 511 323	201 729 305
Interest received (trading)	4 583 384	3 726 728
Interest received - investment	1 155 435	259 686
Other income - (rollup)	751 433	875 129
Sundry revenue	1 708 460	132 222
Property rates	10 426 038	3 370 642
Public contributions and donations	4 977 620	15 000
Rental of facilities and equipment	73 939	99 655
Service charges	20 550 869	12 505 386
	300 738 501	**222 713 753**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Interest received (trading)	4 583 384	3 726 728
Interest received - investment	1 155 435	259 686
Other income - (rollup)	751 433	875 129
Rental of facilities and equipment	73 939	99 655
Service charges	20 550 869	12 505 386
	27 115 060	**17 466 584**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	10 426 038	3 370 642
Other taxation revenue 1	1 708 460	132 222
Transfer revenue		
Government grants & subsidies	256 511 323	201 729 305
Public contributions and donations	4 977 620	15 000
	273 623 441	**205 247 169**

23. Bulk purchases

Electricity	6 491 065	7 002 272
Water	4 612 897	4 015 678
	11 103 962	**11 017 950**

Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom whilst water is purchased from Rand Water.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

24. Contracted services

Specialist Services	465 600	168 200

25. Debt impairment

Debt impairment	(59 839 362)	2 336 145

26. Depreciation and amortisation

Property, plant and equipment	26 490 835	24 303 652
Intangible assets	-	22 626
	26 490 835	**24 326 278**

27. Finance costs

Current borrowings	146 325	185 630
Other interest paid	56 165	46 463
	202 490	**232 093**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

28. General expenses

Advertising	622 199	492 959
Auditors remuneration	3 901 391	4 790 785
Bank charges	131 726	138 612
Capacity buildings	484 588	57 901
Chemicals	1 037 973	-
Chemicals	12 300	9 000
Cleaning	61 987	73 237
Community development and training	615 088	2 691 580
Computer expenses	168 110	578 638
Conferences and seminars	17 490	6 390
Consulting and professional fees	3 114 767	8 361 939
Departmental expenses	3 392 353	3 278 574
Electricity consumption	31 980	362 590
Entertainment	264 567	436 927
Fuel and oil	4 978 014	5 170 280
Horticulture	(111 350)	47 800
IT expenses	333	-
Incorporation costs	95 870	2 325
Indigent subsidies	3 090 914	2 723 620
Insurance	591 065	427 573
Magazines, books and periodicals	183 764	319 546
Motor vehicle expenses	3 540 818	693 542
Name branding	48 395	55 223
Pest control	-	39 500
Postage and courier	21 464	12 747
Pump operation cost	1 773 243	1 360 400
Security (Guarding of municipal property)	963 060	968 695
Small, medium and micro enterprises support	-	107 650
Software expenses	(173 832)	-
Stores and materials	7 444	770 601
Subscriptions and membership fees	502 079	450 193
Telephone and fax	3 521 557	3 281 021
Tourism development	44 203	-
Training	925 934	(3 483)
Travel - local	3 284 535	2 962 448
Uniforms	216 531	29 781
Valuation roll expenses	635 058	1 131 025
Ward committee expenses	1 209 277	1 309 372
	39 204 895	**43 138 991**

29. Grants and subsidies paid

Other subsidies		
Government grants	18 379 122	13 704 816

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

30. Employee related costs

Basic	26 616 557	20 712 615
Bonus	2 020 099	1 678 566
Cell phone alloawances	431 650	497 857
Defined contribution plans	4 263 102	5 012 868
Housing benefits and allowances	2 124 249	519 226
Leave pay provision charge	513 301	-
Long-service awards	112 455	-
Medical aid - company contributions	2 824 764	2 170 227
Non pensionable allowances	503 098	10 936
Overtime payments	1 697 864	1 512 764
SDL	407 916	672 951
Transport allowance (bus coupons)	5 678 362	5 108 344
UIF	253 270	206 598
WCA	-	436 615
	47 446 687	**38 539 567**

Key management personnel:

Remuneration of municipal manager

Annual Remuneration	655 006	573 210
Cell phone allowance	-	13 800
Subsistence allowance	440 400	385 541
Other	151 397	141 600
	1 246 803	**1 114 151**

Mr T.M. Bloom was appointed as municipal manager on 2 February 2012, he was still the active municipal manager on year end.

Remuneration of Chief Finance Officer

Annual Remuneration	472 940	471 970
Car Allowance	228 465	215 910
Cellphone allowances	14 400	13 800
Other	97 501	65 000
	813 306	**766 680**

Mrs. B.D..Motlhaping was appointed as chief financial officer on 1 June 2012, she was still the active chief financial officer on year end.

Remuneration of the corporate services manager

Annual Remuneration	432 579	479 506
Transport allowance	210 000	269 214
Housing Allowance	153 996	-
Cellphone allowance	-	21 427
Other	38 086	23 422
	834 661	**793 569**

Remuneration of the community services manager

Annual Remuneration	557 899	427 283
Transport allowance	251 509	218 086
Other	25 151	1 417

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
30. Employee related costs (continued)		
	834 559	**646 786**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

30. Employee related costs (continued)

Remuneration of the technical services manager

Annual Remuneration	518 909	394 883
Transport allowance	192 000	208 991
Cellphone allowance	14 400	11 600
Other	147 996	150 196
	873 305	**765 670**

Remuneration of the local IDP manager

Annual Remuneration	514 445	553 342
Housing Allowance	224 000	224 000
Transport Allowance	22 400	22 400
Other	38 086	-
	798 931	**799 742**

31. Remuneration of councillors

Mayor	702 295	622 664
Speaker	565 254	515 537
Councillors	6 435 820	5 593 224
Councillors’ pension contribution	827 986	772 335
	8 531 355	**7 503 760**

In-kind benefits

The Executive Mayor has use of a Council owned vehicle for official duties.

The Mayor has a full-time secretary and driver at the expense of the municipality.

32. Repairs and maintenance

Repairs and maintenance	10 540 698	18 214 760

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

33. Financial instruments disclosure

Categories of financial instruments

2015

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	57 955 220	57 955 220
Other receivables from non-exchange transactions	1 245 014	1 245 014
	59 200 234	**59 200 234**

Financial liabilities

2014

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	23 976 432	23 976 432
Other receivables from non-exchange transactions	1 245 014	1 245 014
	25 221 446	**25 221 446**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	44 594 018	44 594 018
Bank overdraft	5 870 883	5 870 883
Other financial liability	3 536 392	3 536 392
	54 001 293	**54 001 293**

34. Other revenue

Other income - (rollup)	751 433	875 129

35. Auditors' remuneration

Fees	3 901 391	4 790 785

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

36. Cash generated from operations

Surplus	199 500 875	60 304 417
Adjustments for:		
Depreciation and amortisation	26 490 835	24 326 278
Gain on sale of assets and liabilities	-	2 258 122
Impairment deficit	-	968 654
Debt impairment	(59 839 362)	2 336 145
Movements in provisions	154 274	380 278
Other non-cash items	(19 112 959)	(26 176 162)
Changes in working capital:		
Inventories	163 699	(650 034)
Receivables from non-exchange transactions	-	10 127 573
Consumer debtors	25 684 309	(7 186 356)
Payables from exchange transactions	13 036 165	(71 317 342)
VAT	(4 112 994)	5 810 171
	181 964 842	**1 181 744**

37. Commitments

Authorised capital expenditure

Approved and contracted for		
• Capital commitment - Property, plant and equipment	36 812 447	57 058 000
• Operational commitment - Consulting services	802 142	-
	37 614 589	**57 058 000**

The capital commitments expenditure that relates to property and will be financed by government grants. Operational expenditure will be financed by own revenue.

38. Contingencies

As at year-end, the South African Revenue Services had imposed a penalty of R 122,343.55 on the municipality. The municipality has disputed this penalty but the matter was not finalised as at year-end.

As at year-end, the municipality was not involved in any litigation claims. Therefore no other contingent liabilities or assets are disclosed.

Notes to the Annual Financial Statements

39. Related parties

Relationships

Members of key management and their close family members
TM Bloom
BD Motlhaping
TJ Gopetse
KV Phiri
KJ Mabudi
TS Tlaole

Ward councillors and their close family members
Cllr. N Mokweni
Cllr. O Kaotsane
Cllr. S Ortel
Cllr. K Shuping
Cllr.S Matshidiso
Cllr. G Sephekelo
Cllr. K Modise
Cllr. E Molawa
Cllr. G Moriri
Cllr. D Kubang
Cllr. P Segaetsho
Cllr. S Moagi
Cllr. H Kgopodithata
Cllr. D Josop
Cllr. T Teteme

Party representatives
Cllr. J Freedman
Cllr. MC Tihelo
Cllr. TP Tshipo (Deceased)
Cllr. K. Ditshetelo
Cllr. S Segano
Cllr. B Matlhomantsho
Cllr. V Jordan

EXCO Members
Cllr. BM Mbolekwa
Cllr. N Selebalo
Cllr. K Mosiapoe
Cllr EO Leshope

Other than the related disclosed above, the municipality does not have any other related parties. No transactions occurred with related parties during the reporting period other than those at arms length as consumers of municipal services.

40. Accounting officers emoluments

Heading	**Emoluments**	**Total**
Executive	-	-
2015	-	-
Mr. TM Bloom	1 246 803	1 246 803
Executive	-	-
2014	-	-
Mr. TM Bloom	1 114 151	1 114 151
	2 360 954	**2 360 954**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

41. Prior period errors

1 & 2. Consumer debtors have been reconciled to agree to the debtors listing. This was done to improve debt collection and to effect proper analysis of the debtors book. In addition, the receivables from exhchange transactions have been renamed consumer debtors for better presentation.

3. Property, Plant and Equipment has been restated to reflect the correct figures as per the fixed assets register. Incorrect figures were previously recorded in the accounting records.

4. The payables records included old balances which were not supported by any list and hence the creditors listing was overstated by the lumped amounts without names of any creditors. The municipality has since implemented strict creditor management and cleared all unsubstantiated balances.

5. There was a mismatch of processing in the municipality's accounting system in the previous years. This caused the ledger bank balance not to agree to the municipality's cash book balances. This has been corrected.

Statement of financial position		
Receivables from exchange transactions	-	(23 976 432)
Consumer debtors	-	2 578 313
Property, plant and equipment	-	9 614 216
Payables from exchange transactions	-	(18 993 492)
Bank overdraft	-	11 320 321
Accumulated surplus	-	(19 457 074)

42. Risk management

Interest risk

As the municipality has no significant interest - bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rate.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to a fair interest rate risk. Municipality is to maintain all of itss borrowings in a fixed rate instruments.

Capital risk management

The capital structure of the municipality consist of the debt, cash and cash equivalent and equity as disclosed in the Statement of Financial Position.

There are no externally imposed capital requirements

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. The municipality does not perform an evaluation of the credit risk relating to its customers and therefore risk limits are not set.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

43. Going concern

We draw attention to the fact that at 30 June 2015, the municipality had accumulated surplus of R 1 232 604 296 and that the municipality's total assets exceed its liabilities by R 1 232 604 296. The use of the going concern principle is appropriate.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

44. Events after the reporting date

The municipality is unaware of any events after the reporting date which required disclosure and or adjusting events.

45. Unauthorised expenditure

Opening balance	243 424 305	201 183 198
Additions to unauthorised expenditure	42 253 388	42 241 107
Unauthorised expenditure under investigation	**285 677 693**	**243 424 305**

The above unauthorised expenditure is within the votes and is as a result of overspending on various votes on the budget, therefore the total approved expenditure is overspend. This is unauthorised expenditure was tabled to council in accordance with section 23 (6) of the Budget and Reporting Regulations.

Council is currently investigating the opening balance and current fruitless and wasteful expenditure, irregular expenditure and unauthorised expenditure which is not quantified above.

46. Fruitless and wasteful expenditure

Opening balance	953 502	870 925
Addition of interest and penalties incurred	111 326	82 577
Fruitless and wasteful expenditure under investigation	**1 064 828**	**953 502**

Fruitless and wasteful expenditure was due to the late payment of some of the municipalities' accounts. Council is currently investigating the opening balance and current fruitless and wasteful expenditure, irregular expenditure and unauthorised expenditure which is not quantified above.

47. Irregular expenditure

Opening balance	79 433 930	79 433 930
Add: Irregular Expenditure - current year	1 826 990	-
Irregular expenditure under investigation	**81 260 920**	**79 433 930**

The Irregular expenditure listed above arouse as a result of various non - compliances to the Supply Chain Regulation as well as non - compliance to the Supply Chain Policy of the municipality. Further explainations and descriptions are listed in the Deviation registers. Council is currently investigating the opening balance and current fruitless and wasteful expenditure, irregular expenditure and unauthorised expenditure which is not quantified above.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

48. Additional disclosure in terms of Municipal Finance Management Act

Distribution losses

Non-Technical losses:

Non-Technical losses are amongst others the result of administrative and technical errors, negligence, theft of electricity cables, tampering with meters and connections which form part of illegal consumption, faulty meters, vandalised stand-pipes etc.

Technical losses:

Technical losses are the result electriciy losses while being distributed from the source of genearation through the transmission and distribution network to the final consumer. The wires (copper or aluminium) being used to distribute electricity has certain resistance which resist the thoroughput of current, as a reslut there is a certain portion of elctricity that is lost due to distribution.

Technical losses of water are the result of losses between bulk water purchases less the water distributed to consumers. Alternatively, this can be measured as total water stored in tanks less water distributed to consumers.

Water-

In the current year there were no technical and financlial losses for water distribution. However, there were no-technical losses of water which took place whaich are not quantifiable due to the nature of the losses.

Electricity-

In the current year the energy losses were. These losses are the result of theft, vandalism, faulty meters and variances in monthly consumption estimates. Management has determined that the se losses are not recoverable. Due to the lack of kva meters, the municipality is incurring a loss as Eskom is billing kva while the municipality is not doing so yet.

kWh - units - *742,696 kw (2014: 1,066,295.97)*
Rand value - *R 777,044 (2014: 847,168.51)*
Percentage - *27% (2014: 20.20%)*

Audit fees

	2015	2014
Current year subscription / fee	3 901 391	4 790 785

PAYE and UIF

	2015	2014
Current year subscription / fee	6 949 128	5 983 547
Amount paid - current year	(6 949 128)	(5 983 547)
	-	-

Pension and Medical Aid Deductions

	2015	2014
Current year subscription / fee	7 087 866	5 668 300
Amount paid - current year	(7 087 866)	(5 668 300)
	-	-

Figures in Rand	2015	2014

48. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

	2015	2014
VAT receivable	3 586 880	-
VAT payable	-	526 114
	3 586 880	**526 114**

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

None of the Councillors had arrear accounts outstanding for more than 90 days at 30 June 2015:

None of Joe Morolong Local Municipality's Councillors have consumer accounts in arrears as at year end.

49. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Notes to the Annual Financial Statements

50. Employee benefit obligations

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to 163 (2014: 143) employees and 28 (2014: 29) Councillors. The municipality uses a defined contribution provident fund with Cape Joint Retirement Fund, which is subject to the Pensions Fund Act for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

The total of expenses paid to the employees defined contribution plan(s), is as follows:

2015	Number of the municipality's employees belonging to the plan	Amount of contribution paid by the municipality for the year ending
Counsillors Pension Fund	29	827 986
Cape Retirement Fund	134	4 263 102
	163	**5 091 088**

2014	Number of the municipality's employees belonging to the plan	Amount of contribution paid by the municipality for the year ending
Counsillors Pension Fund	29	772 335
Cape Retirement Fund	134	5 012 867
	163	**5 785 202**

51. Budget differences

Material differences between budget and actual amounts

Material differences are those over 15% and/or R 2m. The main reasons for the material differences are:

1. Service charges - Actual billing was higher than budgeted because due to debtor information verification and improvement in controls.

2. Interest trading - A large debtors book resulted in high interest being charged to consumer accounts.

3. Other income - Income received from .....resulted in other income being significantly higher than budgeted for.

4. Property rates - Higher revenue was billed due to the implementation of the supplementary valuation roll.

5. Government grants and receipts, Public contributions and transfer payments - These are similar in nature and the difference is only due to re-classifications of amounts recognised in revenue. The net difference is not material.

6. Depreciation - There is an increase in depreciation due to a number of large projects being completed and now increasing the annual depreciation charge while there were very little asset disposals.

7. Repairs and maintenance - The difference between actual expense and budget is that

8. Grants and subsidies paid -

Changes from the approved budget to the final budget

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

51. Budget differences (continued)

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters. For details on these changes please refer to pages to in the annual report.

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. For details on these changes please refer to pages to in the annual report

52. Impairment of assets

	2015	2014
Reversal of impairments		
Property, plant and equipment	-	968 654
Describe the events and circumstances that led to the recognition or reversal of the impairment loss. The recoverable amount [recoverable service amount] of the asset was based on its fair value less costs to sell or [its value in use.]		

Joe Morolong Local Municipality
Appendix A
June 2015

Schedule of external loans as at 30 June 2015

	Loan Number	Redeemable	Balance at 30 June 2014 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2015 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Loan Stock			-	-	-	-	-	-
Structured loans			-	-	-	-	-	-
Funding facility			-	-	-	-	-	-
Development Bank of South Africa								
DBSA @ 8.848%	61 000 368	30/06/2027	2 309 959	-	-	2 309 959	-	-
DBSA @ 1 %	61 000 239	01/07/2017	627 492	-	-	627 492	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			2 937 451	**-**	**-**	**2 937 451**	**-**	**-**
Bonds			-	-	-	-	-	-
Other loans			-	-	-	-	-	-
Lease liability			-	-	-	-	-	-
Annuity loans			-	-	-	-	-	-
Government loans			-	-	-	-	-	-
Total external loans								
Loan Stock			-	-	-	-	-	-
Structured loans			-	-	-	-	-	-
Funding facility			-	-	-	-	-	-
Development Bank of South Africa			2 937 451	-	-	2 937 451	-	-
Bonds			-	-	-	-	-	-
Other loans			-	-	-	-	-	-
Lease liability			-	-	-	-	-	-

Joe Morolong Local Municipality
Appendix A
June 2015

Schedule of external loans as at 30 June 2015

	Loan Number	Redeemable	Balance at 30 June 2014 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2015 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Annuity loans			-	-	-	-	-	-
Government loans			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			2 937 451	**-**	**-**	**2 937 451**	**-**	**-**

Joe Morolong Local Municipality
Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2015

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
																		Yes/ No	
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		No	
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.